Standing Committee Report Summary

The Pension Fund Regulatory and Development Authority Bill, 2011

- The Standing Committee on Finance submitted its 40th Report on The Pension Fund Regulatory and Development Authority (PFRDA) Bill, 2011 on August 30, 2011 (Chairperson Mr. Yashwant Sinha). The Bill was introduced in the Lok Sabha on March 24, 2011.
- The PFRDA Bill, 2005 was introduced in the Lok Sabha in March, 2005 but lapsed with the dissolution of the 14th Lok Sabha. The Standing Committee on Finance had submitted its report on the Bill in July 2005 with certain recommendations. Since the PFRDA Bill, 2011 is similar to the 2005 Bill, the Report of the Committee reiterates in principle, its recommendations on the 2005 Bill.
- The Interim PFRDA was set up in 2003. The New Pension System (NPS) was launched in 2004 as a compulsory scheme for all government employees and as a voluntary scheme for all citizens including those in the unorganized sector. According to this report the subscriber base of the NPS was 24 lakh and total corpus was Rs.9925 crore as of July 2011. The Committee is of the view that these numbers indicate low popularity and government needs to make efforts to popularize the scheme to achieve the desired objectives.
- Under the NPS the PFRDA appoints fund managers to implement different schemes for investors. Each of these schemes yields a different rate of return on investment. The Committee has noted that the performance of some of these schemes have been uneven in the last three years; especially in the unorganised sector where subscribers have a choice of three different kind of bonds (government, corporate, and equity) to invest their money in. The Committee has recommended that there be stringent monitoring of the implementation of these schemes and a better evaluation to ensure more stable returns to the subscribers.
- There is no provision for foreign investment policy in the pension sector in the Bill. However, the Statement of Objects and Reasons clearly states that foreign investment policy for the pension industry will be notified under the Foreign Exchange Management Act (FEMA), 1999. The Committee is of the view that foreign investment of pension intermediaries should be capped at 26 per cent. It recommends that certain amendments should be made in this proposed Bill to bring about FDI in the pension sector.
- The Bill states that members of the Authority should be selected from amongst those who have knowledge and experience in economics, finance, law or administrative matters with at least one person from each discipline. The Committee is of the view that with economics, finance, and law the selection base would be broad enough. In other words, background in administration should not be a criterion for selecting members to the PFRDA.
- The Bill states that the PFRDA should ensure growth of the NPS and that subscriber funds should be safe. In addition, the Committee recommends that it should be mandatory for fund managers to insure the funds of subscribers for complete safety of their money.
- The Bill states that the subscriber shall only get a market based guaranteed returns and no other assurance of benefits. The Committee recommends that there should be a minimum guaranteed return to subscribers which should not be less than the minimum rate of return on the Employee Provident Fund Scheme to ensure some safety of the deposits of the employees.
- The Bill states that the number of pension funds shall be determined by regulations and at least one of them should be a government company. The Committee is of the view that in order to bring about some stability in the financial sector at least one third of the fund managers should be selected from the public sector.
- The Committee recommends that the PFRDA should ensure that coverage of the scheme is more broad based and more flexible. Subscribers should have a choice of the scheme as well as the fund manager.

Sana Gangwani
sana@prsindia.org

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